

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 OMB-01 TRSE-00 CIAE-00 DODE-00 INR-10

NSAE-00 PA-03 RSC-01 USIA-15 PRS-01 L-03 H-03 RSR-01

EB-11 IO-13 ACDA-19 PM-07 NSC-10 SS-15 /139 W

----- 001832

P 031340Z AUG 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 0129

INFO USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS UNN

UNCLAS ROME 7793

E.O. 11653: N/A

TAGS: EFIN, IT

SUBJ: 1974 ITALIAN BUDGET SENT TO PARLIAMENT

REF: A-445 OF JULY 31, COUNCIL OF MINISTERS APPROVED AND FORWARDED TO PARLIAMENT BUDGET FOR 1974 IN UNJSJALLY ABBREVIATED FORM. FOR FIRST TIME NO BUDGET PROSPECTUS WAS RELEASED AT TRADITIONAL BUDGET PRESENTATION PRESS CONFERENCE, AND ONLY BASIC EXPENDITURES, REVENUE AND DEFICIT DATA WERE RELEASED. PROJECTED DEFICIT FOR 1974 IS ON ORDER OF 8,606 BILLION LIRE OR ABOUT 200 BILLION LIRE LESS THAN ACTUAL 1973 DEFICIT. REVENUES ARE EXPECTED TO INCREASE 14.5 0/0 WHILE EXPENDITURES ARE TO INCREASE ALMOST 20 0/0 OVER 1973 LEVELS. RUMOR GOVERNMENT'S CONCERN WITH INFLATION MOTIVATED CUTS IN EXPENDITURES AS WELL AS SOLEMN PROMISE TO HOLD LINE ON ANY ADDITIONAL EXPENDITURES WHICH WOULD INCREASE DEFICIT. AS ECONOMIC MINISTERS HAD LESS THAN TWO WEEKS TO PREPARE BUDGET, PRESENTATION IN BROAD OUTLINE FORM IS INTENDED TO PERMIT SUBSEQUENT INTERNAL ADJUSTMENTS AMONG VARIOUS LINE ITEMS. DETAILS SHOULD BE AVAILABLE BY OCTOBER WHEN PARLIAMENT BEGINS BUDGET DEBATE. /END SUMMARY/.

2. ALTHOUGH DETAILS NOT FORMALLY RELEASED, FOLLOWING TABEL WAS COMPILED BY MILAN DAILY /24 ORE/ FROM RECENT PRESS STATEMENTS UNCLASSIFIED

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BY TREASURY, BUDGET AND FINANCE MINISTERS. (REGARDING TABLE: (A) EXCHANGE RATE USED 581.50 LIRE EQUAL \$1.00; (B)# THESE DATA ARE /24 ORE'S/ ESTIMATES BASED ON LA MALFA'S STATEMENT THAT INVESTMENT EXPENSES INCREASED BY 269 BILLION LIRE;

(C)## BUDGET MINISTER GIOLITTI HAS SET REAL 1973 DEFICIT FIGURE
 AT 8,800 BILLION LIRE; (D) ONLY TOTAL REVENURE, EXPENDITURE
 AND DEFICIT FIGURES FORH1974 SHOULD BE CONSIDERED OFFICIAL;
 (E) SOME OF 1973 DATA TAKEN FROM MALAGODI WHITE PAPER, REFAIR.)

1973	1974	PERCENT-INCREASE
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(BILLIONS OF LIRE)		

RECEIPTS

A. TAXES	14,601	16,107	10.3
B. OTHER	818	870	6.3

∴ SUB TOTAL	15,419	16,977	10.1
D. BORROWING	242	310	28.4

E. TOTAL RECEIPTS	15,661	17,287	14.4
(\$26.9 BILL.) (\$29.7 BILL.)			

EXPENDITURES

F. CURRENT	16,448	20,271 #	23.2
G. CAPITAL	4,392	4,661	6.1

H. SUB-TOTAL	20,840	24,932	19.6
I. LOAN REPAYMENTS	796	961	20.8

L. TOTAL			
EXPENDITURES	21,636	25,893	19.7
(\$37.2 BILL.) (\$44.5 BILL.)			
M. SAVINGS DEFICIT			
(A-F)	-1,847	-4,164 #	
N. FINANCIAL DEFICIT			
(C-H)	-5,421	-7,955	
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O. BUDGETARY DEFICIT	-5,975 ##	-8,606
(\$10.3 BILL.) (\$14.8 BILL.)		

3. THEREE RESPONSIBLE MINISTERS, LA MALFA (TREASURY), GIO-
 LITTI (BUDGET) AND COLOMBO (FINACE), GAVE LENGTHY PRESS
 CONFERENCE MORNING AUGUST 1, LA MALFA PLACED BUDGET SUBMISSION
 IN CONTEXT OF RUMOR GOVERNMENT'S ANTI-INFLATION CAMPAIGN,
 SAYING IT WAS THIRD MEASURE IN SERIES AND COMPLEMENTED PRICE
 FREEZE AND CREDIT AND MONETARY DECREES OF PREVIOUS WEEK.
 MINISTERS MADE STRONG COMMITMENT TO HOLD LINE ON FURTHER
 INFLATIONARY EXPENDITURUES. LA MALFA PROMISED TO INSURE
 ENFORCEMENT OF ARTICLE 81 OF CONSTITUTION WHICH REQUIRES ALL
 APPROPRIATION BILLS ADDITIONAL TO STATE BUDGET TO PROVIDE

MEANS FOR THEIR OWN FINANCING.

4. BUDGET MINISTER GIOLITTI DESCRIBED PROJECTED DEFICIT FOR 1974 AS A "PARADOX". WHILE SOME 44 0/0 LARGER THAN 1973 DEFICIT AS ORIGINALLY ESTIMATED, 1974 DEFICIT OF 8,606 BILLION LIRE IS SMALLER THAN ACTUAL 1973 DEFICIT BY SOME 200 BILLION LIRE. WHILE ADMITTING THAT DEFICIT WAS "SERIOUS", TREASURY MINISTER POINTED OUT THAT GIVEN RATE OF INCREASE SHOWN IN 1973, 1974 DEFICIT WOULD HAVE BEEN ALMOST 11,000 BILLION LIRE IF CORRECTIVE STEPS HAD NOT BEEN TAKEN. LA MALFA GAVE NO SPECIFICS AS TO WHAT REDUCTIONS WERE MADE BUT DESCRIBED THEM AS DIFFICULT IN VIEW OF RIGIDITIES OF ITALIAN BUDGET, MULTI-YEAR FUNDING OF PROJECTS AND COMMITMENTS MADE BY PREVIOUS GOVERNMENTS.

5. FINANCE MINISTER COLOMBO NOTED THAT APPROXIMATELY 14 0/0 INCREASE IN INCOME WAS BASED LARGELY ON TAX REVENUES, WHICH APPEAR SOMEWHAT UNCERTAIN BECAUSE OF DIRECT TAX REFORM SCHEDULED TO GO INTO EFFECT JANUARY 1, 1974. HE ALSO ADMITTED IVA RECEIPTS WERE NOT AS HIGH AS EXPECTED BUT EXPRESSED OPTIMISM THAT THEY WOULD INCREASE. COLOMBO ALSO NOTED THAT ANY UNFORESEEN INCREASES IN REVENUES WOULD BE USED TO REDUCE DEFICIT RATHER THAN FURTHER INCREASE EXPENDITURES, WHICH ARE EXPECTED TO INCREASE ALMOST 20 0/0 TO SOME 25,893 BILLION LIRE IN 1974.

6. IN CONTRAST TO UNITED FRONT PRESENTED BY "TROIKA" AT AUGUST 1 PRESS CONFERENCE, SOCIALIST BUDGET MINISTER SGILITTI (IN L'ESPRESSO INTERVIEW RELEASED AUGUST 2) SEEMED TO HAVE UNCLASSIFIED

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DOUBTS ABOUT GOVERNMENT BEING ABLE TO KEEP PRESENT PROJECTIONS FOR 1974 BUDGET UNDER CONTROL. NOTING THAT POLITICAL COMMITMENT HAD BEEN MADE TO DO SO, HE OBSERVED THAT ITALIAN BUDGET WAS NOTORIOUSLY RIGID, THAT REDUCTIONS WERE EXTREMELY DIFFICULT TO MAKE, THAT CURRENT EXPENDITURES FOR PENSIONS WERE SACROSANCT, AND THAT INVESTMENT OUTLAYS WERE ACTUALLY TOO LOW. AT SAME TIME HE BELIEVED DEFICIT WAS HIGH ENOUGH TO IMPERIL STABILITY OF LIRA IF IT WAS NOT CONTAINED.

7. SOME NEWSPAPERS DESCRIBED BUDGET AS "AUSTERE" AND "CRUEL", BUT "REALISTIC" AND IN KEEPING WITH PRESENT ECONOMIC SITUATION AND FUTURE PROSPECTS. OTHER COMMENTATORS EXPRESSED SKEPTICISM THAT BUDGET COULD BE KEPT AT PRESENTLY PROJECTED LEVELS IN VIEW OF FREE SPENDING HABITS OF PARLIAMENT AND BECAUSE OF BUILT-IN AUTOMATIC INCREASES IN PENSIONS AND COSTS TIED TO EXCALATOR CLAUSES.

8. /COMMENT/: IN CONTRAST TO ANDREOTTI GOVERNMENT'S EMPHASIS LAST YEAR ON EXPANSIONARY BUDGET TO STIMULATE ECONOMIC RECOVERY, TENOR OF RUMOR' GOVERNMENT'S BUDGET PRESENTATION CONCENTRATED ON CONTAINING INFLATIONARY IMPACT OF BUDGETARY DEFICIT. AT PRESENT, BUDGET IS IN SKELETON FORM AND GIVEN PRELIMINARY

NATURE OF ANNUAL END-OF-JULY SUBMISSION TO PARLIAMENT WILL
UNDERGO A GOOD DEAL OF INTERNAL REVISION IN COMING MONTHS.
BUDGET IS BY NO MEANS AN "AUSTERE" ONE, BUT ECONOMIC AND FINANCE
MINISTERS OF NEW CENTER-LEFT GOVERNMENT SHOULD BE GIVEN
CREDIT FOR HONEST EFFORT TO TURN AROUND EXPANSIONARY TENDENCY IN
RECENT BUDGETS. ULTIMATE SUCCESS DEPENDS ON POLITICAL WILL
AND CONTINUED COHESION OF RUMOR COALITION.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET
Control Number: n/a
Copy: SINGLE
Draft Date: 03 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973ROME07793
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730869/abqcegvst.el
Line Count: 172
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A-445 OF JULY 31, COUNCIL OF MINISTERS APPROVED AND FORWARDED TO PARLIAMENT BUDGET FOR 1974 IN UNJSJALLY ABBREVIATED FORM. FOR FIRST TIME NO BUDGET PROSPECTUS WAS RELEASED AT TRADITIONAL BUDGET PRESENTATION PRESS CONFERENCE, AND ONLY BASIC EXPENDITURES, REVENUE AND DEFICIT DATA
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Aug-2001 by reddocgw>; APPROVED <01 MAR 2002 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: 1974 ITALIAN BUDGET SENT TO PARLIAMENT
TAGS: EFIN, IT
To: STATE INFO EC BRUSSELS UNN
OECD PARIS UNN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005